Liberalism as a Form of Economic Nationalism

Introduction

Whereas the literature on political nationalism is vast, relatively little has been written on economic nationalism. Much of the literature that does exist, views economic nationalism as an "outdated phenomenon in this age of globalisation" (Helleiner and Pickel, 2005: p. vii). Economic nationalism has traditionally been associated with protectionist policies, which are perceived to contradict liberal policies with their emphasis on free trade and an economically passive, non-interventionist state (Baughn and Yaprak, 1996; Nakano, 2004). However, as Pickel (2003), Shulman (2000) and Nakano (2004) argue, economic nationalism is still relevant and does not contradict liberal policies.

The purpose of this paper is firstly to demonstrate the relevance of economic nationalism. Secondly, by investigating the origins of neoliberal economic policies and the motives behind them, using policy formulation in Estonia as a case, I show how Estonian national identity shaped economic policy in post-socialist Estonia. I claim that economic nationalism and economic liberalism are not a dichotomy. I argue that Estonian policy formulators decided to pursue neoliberal policies because they perceived them to best serve their objectives of regaining and maintaining their sovereignty, breaking away from the geopolitical, economic and cultural influence of Russia, and reorienting their economy towards Western Europe. I draw a parallel between Estonian economic nationalism and neoliberal values.

Estonia's post-socialist administration is among the "very few, that explicitly identify themselves as neoliberal" (Larner, 2000: 8). As a leading Estonian economist declared: "*I am a supporter of neoliberal fields in economy*" (interview). Estonian policy makers consider the neoliberal trajectory as the only viable path to closing the gap between Estonian and western standards of living, and maintaining the economic, political and cultural sovereignty of their nation. Their sense of abandonment, radical individualism and self-reliance predisposed Estonian policy formulators to the neoliberal utopia of 'total freedom'. They strived to construct the form of economy that they perceived most compatible with their value system and their understanding of their environment. The neoliberal paradigm constitutes a form of economic nationalism in post-socialist Estonia.

In this article I use the terms liberal and neoliberal synonymously following Peet (2007: 192) who argues that "neoliberalism is merely liberal economics exaggerated".

The structure of the article is as follows. I begin with a discussion of the concepts of economic nationalism and liberalism. In the following sections I analyse Estonian national identity, its effects on economic policy preferences and argue that the self-image of Estonians has predisposed them to the value system of neoliberal thinking. Estonian policy formulators see the welfare of their nation best served by the pursuit of neoliberal policies.

Protectionism = economic nationalism ≠ economic liberalism?

On the one hand, the drivers of globalisation – the advancement and diffusion of technology, the internationalisation of production, consumption, input and output markets, harmonisation of economic policies, and standardisation of laws and regulations across borders - all have a significant impact on national policies and behaviours. On the other hand, it is nations through their representatives at various national and international institutions that shape economic globalisation. In our interdependent world locational qualities – tax regimes, the state of the infrastructure, the economic, political and legal environment, spending on health care and education – are all largely determined by decisions made at national governmental level. "As states compete for global capital, we see intense efforts to play up the distinctiveness of local characteristics and competitive advantages" (True, 2005: 202).

The literature on economic nationalism is sparse and divided. To Baughn and Yaprak (1996), Capling (1997) and Berend (2000) economic nationalism is equivalent to protectionism as well as neomercantilism. Berend (2000: 317) defines it as "guaranteeing the command of native investors instead of foreign entrepreneurs, thwarting foreign competition in the domestic market by high protective tariffs and other isolationist measures…" In Hall's (2005: 124) summation, economic nationalism mostly includes policies that liberal economists 'disapprove'. According to this view liberal policies – the promotion of free mobility of inputs and outputs, and non-discriminatory access to resource and output markets, which involve the dismantling of all forms of trade barriers – contradict economic nationalism and therefore are opposed by nationalist policy makers. Neoliberal theorists do not dwell on the concept of nation but focus on the role of the individual and the betterment of free society

through proactive rational individual effort unhampered by government intervention. Neoliberals perceive government intervention, such as restrictions on international trade, price fixing, and high tax burdens, as the major inhibitor to economic growth because it demotivates entrepreneurship and leads to misallocation of resources. According to them, the role of state institutions must be limited to the protection of the freedom of individual action and thought, maintenance of law and order, and provision of a stable monetary framework (Hayek, 1960; Friedman, 1962; Peet, 2007). Liberals claim that the engine of economic development is the self-regulating market completely free from government intervention, in which people are at full liberty to pursue their own goals through their preferred course of action culminating in the "coincidence of private and public satisfaction" (O'Brien, 2003: 113). Harvey (2005: 64) summarises neoliberal theory as "strong individual property rights, the rule of law, and institutions of freely functioning markets and free trade". Friedman (1962: 38) advocates free trade as well as floating exchange rates stating that "restrictions on international trade… give individuals the incentive to misuse and misdirect resources…"

Under neoliberalism politics and economics are interwoven; democracy and unimpeded free markets are considered inseparable. Neoliberal ideology is presented as the champion, the exclusive guarantor of individual freedom, in the promotion of which the market is deemed instrumental (Giroux, 2004). "Neoliberalism is... an economic project but it is also a moral one – a project of individual ethics" (Smith and Rochovská, 2007: 1166). As such, neoliberal theory easily lends itself to political movements that attach high values to individual liberty.

However, liberalism is not the equivalent of a lack of rules. “Good markets need good governments” (Wolf, 2005: 73). Liberalism does not mean that “government should never concern itself with any economic matters” (Hayek, 1960: 220). “The consistent liberal is not an anarchist” (Friedman, 1962: 34) but intervention in economic affairs must be evaluated carefully on a case by case basis.

Shulman (2000), Helleiner (2002), Pickel (2003), Nakano (2004) and Kangas (2013) argue that liberal policies can be not only compatible with economic nationalism but can also constitute a type of it. Hall (2005) examines the role of economic nationalism in the Japanese context of the ‘developmental state’. He argues that economic nationalism needs to be defined not in terms of policies but in terms of its goals and motivations – “of promoting the survival, strength, and prestige of the state and/or nation in a competitive international system” (p. 124). Then the contradiction between liberalism and deregulation on the one hand and economic nationalism on the other disappears.

True (2005) examines the interdependence between economic nationalism and globalisation in the case of the radical economic reforms that took place in New Zealand. She brings up the creation of Brand New Zealand, the successful marketing of the Chinese gooseberry as the kiwifruit of New Zealand around the world, and New Zealand’s defence of the America’s Cup yachting race as examples of proactive nationalist policies promoting openness and liberalism.

Kangas (2013) also challenges the argument that economic nationalism is dated and is incompatible with neoliberalism. She uses the modernisation project of the Skolkovo innovation city near Moscow to underline the role of nationalism as an 'agent' in the 'domestication' of neoliberalism in Russia.

As demonstrated in the following sections, Estonian policy makers have chosen neoliberal policies in order to accomplish national goals: strengthening national sovereignty and advancing economic development. The ideal of individual freedom and hands-off economic policies hold immense appeal to populations, including Estonians, with experience of totalitarian regimes.

Researching policy formulation in Estonia

This article is an outcome of a research project aimed at uncovering the motives behind policy formulation in Estonia's post-socialist economic transformation. The research objective was to investigate why Estonian policy makers decided to embark upon the neoliberal trajectory and how they arrived at those decisions. Although there is ample literature (Terk, 2000; Smith, 2001; Feldmann and Sally, 2002 ; Feldmann, 2013; *inter alia*) discussing Estonia's economic transformation, a critical qualitative evaluation of the motives behind the country's neoliberal transformation has not taken place.

This paper is based on a qualitative, inductive and interpretive study, which investigates the motives behind the policy choices of Estonian policy formulators in the country's post-socialist transformation. The respondents have been individuals who were either key decision makers, and/or had a major influence on policy choices of Estonia's economic transition in the late 1980s and 1990s. The findings are based on twenty-three face-to-face, semi-structured interviews that took place in Tallinn, Tartu, London, Brussels and Riga. The interviewees included every prime minister between 1991 and 1997, the President of the Estonian Central Bank who led the country's monetary reform, members of the Central Bank's Supervisory Board, economic and finance ministers, former dissidents and government advisors. Over thirty hours of recording has been transcribed and subsequently analysed with the aid of NVivo software. In order to ensure trustworthiness of the findings, member checking, self-critical reflection and triangulation was used. The information gained from the interviews was compared with documentary evidence, including the official databases and documents of national and international organisations. In addition, I lived in Estonia for seven years, which allowed me to gain an insight into Estonian culture and enabled me to become knowledgeable of the self-image of the Estonian people.

I use a large number of quotes in my analysis in order to underline the key arguments. I reveal the name of the source (given the consent of the interviewees) where I think it enhances my point.

The Estonian economy: ultraliberal economic policies

In the words of Timothy Frye (2010: 1), "(i)f the watchword of the communist era was conformity, the watchword of the post-communist world is diversity". Post-communist transition has not followed the neoliberal model of linear transformation from centrally planned economy to free market economy but has gone 'wild' (Smith and Stenning, 2006: 205) resulting in diverse transformations with uncertain destinations (Orenstein, 2001). The countries of Central and Eastern Europe (CEE) have witnessed the emergence of a variety of capitalisms.

Estonia's policies are markedly more liberal than of other transition economies. By consistently pursuing neoliberal policies since the country's regaining of independence in 1991, the successive post-socialist governments have succeeded in creating an ultra-liberal economic environment. Firm belief in the virtues of the market, the supply-side orientation of economic policies, the minimalist and non-interventionist state are all a testament to the neoliberal nature of the Estonian economy. The current tax legislation, which is one of the most liberal tax systems in the world, places more emphasis on indirect, rather than direct taxation. All corporate reinvested profits are tax exempt (Estonian Investment Agency). The various international agencies have praised Estonia's post-socialist economic transition applauding its fast-growing economy based on flat taxes, free trade, hands-off industrial policy, business-friendly environment, low inflation rate, balanced budget and low level of government debt (European Central Bank). It has the most competitive economy in CEE (World Economic Forum, 2015). For credit rating analysts Moody's (2007) "the country's success in economic stabilisation and structural transformation is unparalleled among

transition nations". As recently as 2014, the country's economy had the highest ranking (11) in the CEE on the Index of Economic Freedom (The Heritage Foundation).

Estonian policy makers' choice of shock therapy was "*mainly ideologically motivated*" (interview). Estonian elites proactively discarded the legacy of central planning in favour of a free market economy by emphasising values compatible with neoliberal theory, such as individual initiative, self-reliance, accountability, and a minimalistic state, that they claimed were the view of the good life that Estonians widely shared. The "all too visible hands of the party" were replaced by the invisible hand of the market (Orenstein, 1996: 181) overnight. The country's first freely elected government in 1992 spearheaded a quick break with the Soviet past, as they claimed that the benefits offered by the paternalistic socialist state such as guaranteed employment and subsidised provisions came at too high a price. In the words of Mart Laar[1], *"the overall goal was to return Estonia to Europe"* echoing the symbolic significance of 'Europe' as a concept synonymous with not just the end of the communist era but also the concept of civil society. Looking to Europe as the beacon of civil society is not uncommon across the CEE (Verdery, 2006). To Estonians 'returning to Europe' means the end of alien domination and the opportunity to build a sovereign and prosperous nation.

The ultraliberal nature of Estonian economic policies was underlined by the country's EU accession when international organisations, such as the World Bank and the EU, advised Estonia to 'de-liberalise' them. Estonia's adjustment to the EU *acquis communitaire* meant the de-liberalisation of its economy through the adoption of regulatory measures (Adam, et al.

[1] Prime Minister of Estonia 1992 - 1994 and 1999 - 2002

2009), such as introduction of trade barriers and labour market regulations. Urmas Varblane[2] explained the process of de-neoliberalisation:

> *"…when we started to negotiate joining EU suddenly we discovered that when we join EU, we should implement tariffs… Estonia is a unique country in the world. Joining the EU does not mean the growth of liberalisation of trade but the growth of protectionism against third countries."*

In the next sections I analyse the Estonian imaginary, which was a determining factor in policy formulators' choice of neoliberal policies in their quest to maintain political and economic sovereignty and promote economic growth.

The Estonian self-image

In the words of Pickel (2003: 122), "(e)conomic nationalism is not so much about the economy as it is about the nation – the economic dimensions of specific nationalisms make sense only in the context of a particular national discourse…" In order to understand economic nationalism in Estonia, an examination of the Estonian context is essential. Estonia's transition was driven by people under constraints of path-dependence and dynamic political, economic and social conditions.

National identity has a clear influence over economic policies in post-socialist transition (Eichler, 2005). In the words of the leading Estonian sociologist, Taagepera (1993: 6), national culture is a "murky field of inquiry that has no easy answers, but some quality in Estonians has

[2] Member of the Supervisory Board of the Bank of Estonia

enabled them to survive and develop with an extremely small population…" Estonians self-categorise themselves as an individualistic and self-reliant nation, which they use as justification for the ultra-liberal model that they have chosen. Estonia's policy choices were more than a mere economic dilemma. The lenses through which policy makers viewed their options were shaped and chiselled by history and more specifically by their national struggle for survival.

Estonians perceive themselves as Nordic of Finno-Ugric origins with close historical, cultural and economic links with Scandinavia reflecting European values of 'civil society' and a free-market economic orientation, which has been reconstituted following the collapse of the Soviet Union (Lieven, 1993; Piirimäe, 1997; Smith, 2001). Estonia's self-image is firmly rooted in its millennia-long relations with the Nordic countries, which left its imprint on architecture, culture and mentality (Piiramäe, 1997). As Estonian Prime Minister Taavi Rõivas stated in March 2015 "We are a Nordic country in terms of culture, in terms of mentality" (Financial Times, 2015).

Geography played a significant role in the formation of the Estonian self-image. Estonia is very scarcely populated; it is the second most sparsely populated country in Europe with an area of Denmark but only one-fifth of its population (Statistical Office of Estonia) leaving limited opportunities for socialisation. Their resilient and hard-working nature is coupled with egoism and a large doze of individualism (Lieven, 1993) manifesting itself in their preference of technology over human contact. As Taagepera (2002: 254) puts it, "hope for technological-scientific solutions rather than cooperation with fellow humans naturally ties

to the belief in hard but individual work". Estonians admit that they are a "*relatively individualistic nation*". According to an Estonian adage "*if I can see the smoke from my neighbour's chimney, then he lives too close*" (interviews). Their 'radical individualism' is illustrated in post-socialist Estonia in low levels of trade union membership. Despite the harsh social impact of liberal economic restructuring, Estonian trade unions have been very quiet, according to interviewees, contradicting the "simplistic" assumption that "the role played by the unions will mirror that of their western counterparts" (Herod, 1998: 204). Egle Käärats[3] underlined the individualistic nature of Estonians that manifests itself in employer-employee relations.

> *"They are trying to negotiate with their employer their terms and contracts individually and handle their problems on their own... Estonians rely on individual negotiation and individual dispute resolution rather than collective actions."*

Norkus (2007) points to the Pietist cultural legacy as an important determinant of Estonian policies of the late 1980s and 1990s. The Pietist 'Herrnhuter' or Moravian Brethren movement - with their firm belief in piousness, values of temperance, personal hygiene, choral singing, self-education and hard work - spread its missions to Estland and Livonia in the 18th century. Although all three Baltic Republics experienced 'only' five decades of Soviet rule, as opposed to seventy years in other parts of the USSR, Estonia's economic performance surpassed those of Latvia and Lithuania. He goes as far as labelling Estonians 'Baltic Lombardians' to signify their industrious nature. Miljan (1989) points to the work

[3] Deputy Secretary General on Labour Policy, Ministry of Social Affairs.

ethic of Lutheran Estonians as a cause of the relative affluence of the Estonian Soviet Socialist Republic (ESSR) in the Soviet Union and contrasts it with the 'anti-Protestant work ethic in Russia', as the main obstacle to attempts championed by Mikhail Gorbachev, General Secretary of the Communist Party of the Soviet Union, to reform the Soviet economy in the late 1980s. The Economist (2012) praised Estonia's entrepreneurial record as the "best in the industrialised world". Margus Laidre[4] discussed the value system of Estonians:

> *"…Estonians throughout the history have been quite down to earth, quite realistic, stubborn, and even, which I don't regard as a compliment necessarily, materialistic. Therefore, as it has always been, very important to Estonians to have safe, good home, why not a house, to have a car, etc. materialistic belongings, a good life."*

The memory of historical suffering

The representation of one's own nation victimised by other nations, which is a common theme across CEE (Verdery: 1996), occupies a central place in the Estonian imaginary. Their 'memory of historical suffering' is rooted in their nation's and culture's survival despite foreign domination for over seven hundred years, most of which were spent in serfdom (Feldman, 2000). The survival of the small Estonian nation, its culture and language in spite of centuries of foreign rule has instilled a strong sense of national identity, as illustrated by an interviewee: *"To*

[4] Represented the Republic of Estonia as Ambassador to Sweden, Germany, the UK, and Finland, Senior Advisor, Office of the President of the Republic of Estonia

be an Estonian is not just to belong to a certain nationality, it is a profession!" Lieven (1993: 18) cites Enn Soosaar, writer and political analyst to sum up the Estonian self-image:

> "For centuries, Balts have had only two choices: to survive as nations or to merge into larger nations. You could say that we decided, subconsciously but collectively, to survive. So for us, nationalism is a mode of existence… To survive, you must be nationalist."

The argument that nation is not synonymous with country or state (Pickel, 2005) is true in the case of Estonia, as present day Estonia had not taken its current shape until the early 20th century either as a unified nation or a single territorial administrative unit. Despite their long presence in Estonia's present territory, Estonia has been a 'self-aware nation' less than a hundred years. The country took its current territorial shape in February 1917 when the provisional government of Russia unified Estland and Northern Livonia into a single administrative unit in response to Estonian demands for increased autonomy. With the approval of the Estonian representative assembly, the Maapäev, the National Salvation Committee proclaimed independence on February 24, 1918, whereby Estonia became an independent self-aware sovereign state. Up to 1918 there had never been an Estonian state; their national awareness was embodied in their constant struggle to nurture and foster the Estonian culture (Lieven, 1993; Smith, 2001).

The prosperous years of the First Estonian Republic proved the nation's ability to function as a modern European state, which had an instrumental role during the Soviet era in

preserving Estonian culture (Lieven, 1993; Taagepera, 1993). The nation had an open economy with extensive investment and trade links with the West. Its speedy development was aided by foreign capital, mainly from the country's largest trading partners, Britain and Germany. Economic development was fast; the country's population enjoyed a relatively high level of well-being. By the end of the 1930s, Estonia had a well-developed infrastructure and a skilled industrial labour force with average earnings near Western European levels (Kahk and Tarvel, 1997). Despite the authoritarian rule of the late 1930s, the First Republic is remembered as an era of political sovereignty and economic prosperity (Lieven, 1993). It has enormous economic, political and social significance in Estonian consciousness, memories of which were kept alive in families throughout the Soviet era (Lauristin, 1997). The strong desire to 'catch up with the West' among Estonians in the post-socialist era was significantly enhanced by the experience of the First Republic in the interwar era when life expectancy in Estonia was higher than in Finland (Vihalemm, 1997).

The First Republic came to a sudden end when Soviet troops invaded in 1940. The independent Estonian Republic lost its sovereign statehood and became an integral part of the Soviet Union (Lieven, 1993, Smith, 2001). During the Soviet era standards of living in Estonia were much below those of Western Europe. The Estonian population did not benefit from their higher than Soviet average productivity rates and efficient agricultural production because the central authorities were constantly increasing the export quotas, which Estonian producers had no choice but to fulfil. In essence, Estonian farmers were feeding other Soviet republics (Miljan, 1989). To sum up the damage done to the ESSR's economy and the population's standards of living, "the income and consumption level of the Estonian population had dropped to the level

of the year 1920; the living standards hardly ever reached the level of the late 1930s" (Kutsar and Trumm, 1993, p. 130). If Estonia had been able to develop in a manner similar to Finland, its per capita output could have been four or five times its level at the turn of the 21st century (Klesment, 2009) of €4,500 (Statistical Office of Estonia). The state of the Estonian economy in the early 1990s was dramatic; as interviewees recalled, *"we saw how poor we are*", "*we didn't have anything*".

Hale (2008: 2) frames ethnicity as a "powerful determinant of the strategies that people use to pursue the things that motivate them", in order to maximise their "life chances" (p. 62). He lists materialism, security, power, self-esteem and status as motives in ethnic group behaviour. He argues that the desire for national independence is strongly associated with long-run economic expectations. Indeed, as Ardo Hansson[5] recalls, the overriding objective of Estonian policy makers was *"to increase living standards… I think a lot of it was just breaking from East to West… and moving towards Europe…"*

Khazanov (1995) points to the skewed Soviet economic development dominated by the Russian core as a major cause of economic nationalism in the former Soviet Union. Indeed, Soviet domination had a long-lasting adverse impact on its economy, polity, society and above all its national consciousness. Vihalemm (1997) argues that historically Estonia was able to survive and develop under foreign rule throughout the centuries until Soviet annexation because there was no mass immigration to Estonia from its occupiers. Soviet occupation changed that. Whereas on the eve of World War II 92 percent of the country's population were ethnic

[5] Advisor to the Estonian government 1991 - 1997

Estonian, it decreased to 74.6 percent by 1959 and 61 percent by 1988 (Khazanov, 1995: 7). Taagepera (1993) argues that Russification of Estonia was close to the point of irreversibility. This view was echoed by an interviewee: *"There are so few of us, we sometimes think that we are like the Mohicans!"*

Lenin regarded nationalism as a "by-product of capitalism that would become irrelevant as socialism developed" (Hale, 2008: 96). The Party Programme of 1961 referred to the peoples of the Soviet Union as 'united into one family' (Shaw, 1995). Khruschev spoke of a merger between the various peoples of the USSR ultimately leading to the emergence of *homo sovieticus,* the new Soviet citizen (Smith, 2001). Soviet policy towards nationalities was the eradication of nationalistic and ethnic differences and create a 'new transcendent Soviet identity', which Shaw (1995) describes as 'federal colonialism' and Smith (2001) labels 'ethno-territorial federalism'. The federal republics of the USSR enjoyed cultural autonomy, which meant the ability to use their vernacular languages in administration, education, and culture (Shaw, 1995; Smith, 2001), and certain autonomy in hiring preferences leading to prevalence of minority nationalities at republic level. However, power remained with the central authority of Moscow and the Communist Party of the Soviet Union, which was reflected in the popular slogan 'nationalist in form, socialist in content' (Khazanov, 1995). The cultural and social policy of the USSR was aimed at the assimilation of nationalities, Balts included, by shifting their national identification to Soviet. Russians were the dominant nationality in the USSR; they were the most populous ethnic group and occupied the most important economic and political posts (Beissinger, 2002; Hale, 2008). Russian language was promoted heavily squeezing out Estonian in public life and in the media. History was being

rewritten to underline Estonia's 'close link' with Russia (Shaw, 1995; Smith, 2001). The objective of Soviet nationality policy was the "social, cultural, and linguistic unification of all nationalities in the USSR on the basis of Russian or, more accurately, Soviet-Russian culture". The line in a once-popular Soviet song "(m)y address is not a house or a street, my address is the whole Soviet Union" sums up this policy (Khazanov, 1995: 12 and 88).

"If a state loses sovereignty, it has not survived as a state; if a society loses its identity, it has not survived as itself" (Wæver, 1995: 405). The relocation of ethnic Russians served not only the purpose of meeting the demands of industrialisation for labour but also facilitated the assimilation of the peoples of the Soviet Union and the creation of a 'Soviet urban proletariat'. The Soviet authorities distrusted non-Russian nationalities and regarded Russians as the pioneers of socialism (Mettam and Williams, 2001). The majority of the Soviet leadership were Russians, who encouraged the migration of Russians to non-Russian areas in order to "create or increase loyal and reliable groups of the population in these areas" (Khazanov, 1995: 6). The Estonian nation had to deal with the full impact of Soviet occupation, which was more than just the loss of political and economic independence. The loss of the country's indigenous population followed by the repatriation of large numbers of workers from other parts of the USSR permanently altered Estonia's ethnic scene (Kukk, 1993). The onslaught of Soviet ideology and culture threatened the very survival of Estonian national identity. In Taagepera's (1993: 68) view, the Soviet annexation of Estonia was nothing short of Estonia's colonisation, an "unmitigated disaster". Soviet economic policy was viewed by non-Russians as serving Russian needs at the expense of non-Russian populations (Khazanov, 1995).

Fifty years of collectivist and paternalistic Soviet rule is construed as domination by an alien culture over a country of 'European values' (Kalmus and Vihalemm, 2006). Estonia's declaration of independence on 20 August, 1991, is not regarded as the birth of the Third Republic – the second one being the ESSR - or the Second (independent) Republic but signifies the end to Soviet power in Estonia and the restoration of the Estonian Republic along the 'principle of legal continuity'. In effect, it is a restitution of the First Republic (Lieven, 1993). Holding Independence Day celebrations on February 24, the anniversary of the birth of sovereign Estonia in 1918, instead of August 20, which marked the declaration of independence from the USSR in 1991, underlines the continuity of the Estonian state and its strong links with the First Republic.

Freedom is a central theme of Estonia's transition, as attested by many respondents.

> "*The first goal was to become free and independent and the second very important issue was to live in a free country and free society."*

Under communism Estonians had neither economic nor political sovereignty (Lieven, 1993; Taagepera, 1993; Smith, 2001). A respondent explains:

> *"This idea of personal freedom and freedom for the nation, these were the most important things. Now when we take this idea of freedom, I guess in many cases for many people it was just carried over to economic freedom."*

These narratives echo Polanyi's (1944) description of a liberal economy as a utopian vision and Friedman's (1962: 20) argument that "communism would destroy all of our freedoms". They are reminders of Friedman's (1962: 8) analysis of economic and political freedoms:

> "Economic arrangements play a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements is a component of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means towards the achievement of political freedom."

Enn Listra[6] labelled the Soviet system as "*feudal*", upon the collapse of which "*people felt total freedom. You can see it even now in our society. Total freedom means that my freedom is not restricted by your freedom*". Soviet domination strengthened their desire of establishing a free-market economy based on the unrestricted 'total freedom' of the individual placing neoliberal theory in a favourable light. According to interviewees, the paradigm to "*take care of yourself… went to the extreme*" and "*at this time it was very popular to be very right wing*". The neoliberal paradigm held immense appeal to Estonian policy makers, as expressed by this interview excerpt below:

> *"There is also, some kind of a background feeling in Estonia that if I am going to be a protectionist, then I make myself as some outstanding fool. The main line is liberal and now behave like that and I am not like some Frenchman who is fighting for government and statehood."*

Jaak Leimann[7] explained the rationale behind their pursuit of neoliberal policies:

> *"Friedman and such kind of freedom was very popular here. It is understandable because we had so regulated system for a long time, so regulated from Moscow. So we decided to go from this 'very regulated' to*

[6] Member of the Supervisory Board of the Bank of Estonia
[7] Minister of Finance 1991-1992, 1996-1999

'minimum regulated'… It was easier to chop this other world. Even such kind of half-regulated was, for us, too regulated."

To Estonains the neoliberal trajectory is a form of ethnic policy that reduces the geopolitical and economic uncertainties surrounding their nation and maximises the chances of their nation's prosperity. Neoliberal theory regards the "political ideals of individual liberty and freedom as sacrosanct" (Harvey, 2007: 24). The term 'total freedom' was brought up repeatedly by interviewees. Estonia's 'return to Europe' progressed through ultra-liberal policies, which were unparalleled among the transition countries, as clearly stated by Mart Laar:

"Usually, the IMF or World Bank seem very radical on reforms. Not for us. For us they were always too mild."

'Window of opportunity'

Estonia became an independent nation by exploiting the favourable geopolitical situation created by nationalist movements in other parts of the USSR and the coup in August 1991, which hastened the disintegration of the Soviet Union (Taagepera, 1993). The failed coup attempt followed by the collapse of the Soviet Union created a unique window of opportunity, which Estonians exploited finding themselves in charge of their nation again after half a century of Soviet occupation. Estonia declared its independence on August 20, 1991.

Russia was among the first to recognise Estonia's breakaway from the Soviet Union (Lieven, 1993). Russia's push for a break from the Soviet Union was crucial as Boris Yeltsin, who had

been a member of the *nomenklatura* since 1968 and became President of the Russian Soviet Federative Socialist Republic in June 1991, did not oppose Baltic separatism (Trapans, 1994) and was a "consistent proponent of a voluntary state" (Beissinger, 2002). The Russian Supreme Soviet opposed armed intervention in the Baltic States. In January 1991, Yeltsin travelled to the Baltic States during the military intervention in Lithuania and publicly appealed to Russian soldiers not to become "pawns in the hands of dark reactionary forces" (Lieven, 1993: 305), which helped Estonia avoid armed confrontation (Raun, 2001). Defying popular Russian opinion he signed statements of mutual recognition with the Baltic States and condemned the use of military force in the Baltic States (Taagepera, 1993).

Whereas uncertainty is a "feature of all post-communist transformations" (Orenstein, 2001: 134), in Estonia it was significantly aggravated by the presence of Russian troops on Estonian soil until 1994 and the unpredictability of Russia's policies. As in 1918, through a combination of favourable external situation and local agency, Estonia became a sovereign state (Raun, 1991; Lieven, 1993). Jaak Jõerüüt[8] explained:

> *"We are lucky that they left in 1994. But for those 3 years it was very difficult… Nobody knew how much Moscow has changed. There was a window of opportunity… I remember very well that feeling. For a very long time you just don't know what situation comes and then one nice August day the window opens. You had to act immediately."*

[8] Member of the Supreme Council of the ESSR, Minister of Defence 2004-2005

This ‘window of opportunity’ is what many refer to as the long-awaited chance to “*run away from the colossus of the Soviet Union as quickly as possible*” (interview). To all interviewees regaining independence took place within a unique ‘window of opportunity’, which they believe has been shut since. They all agree that had Estonia not regained independence when it did, it would be impossible today. Grachev’s (2008: 231) assessment of the political climate in Russia echoes these narratives: “many observers have represented the current uncertain trend as ‘back to the USSR’”.

Although Russia was quick in its recognition of Baltic independence (Lieven, 1993), Russian foreign policy quickly hardened, reminding some of a Russian version of the Monroe Doctrine. The protection of the rights of Russians living in the former Soviet Union outside Russia became a popular tool in the hands of Russian politicians to build political capital (Khazanov, 1995). The relative success of the extreme right in Russia’s parliamentary elections in December 1993 further exacerbated an already sensitive situation, in which Russian politicians, including Defence Minister Pavel Grachev, linked the issue of troop withdrawals to the condition of Russians living in Estonia (Raun, 1994). In 1994, Russian foreign minister Andrey Kozyrev stated that “the countries of the CIS and the Baltics – this is a region where the vital interests of Russia are concentrated… We should not withdraw from those regions which have been the sphere of Russia’s interest for centuries” (Khazanov, 1995: 87). In spring 2005, Russian President Vladimir Putin, whom the Financial Times (22.09.2014) labels the “most dangerous nationalist in Europe” called the collapse of the Soviet Union the “greatest geopolitical catastrophe of the 20th century” in his state of the nation speech. He described it as a "real drama" which left millions of Russians outside the Russian Federation (BBC News). Recent foreign policy debates

in Russia on how to re-establish Russian influence in the former Soviet states (Judah, 2014) provide further proof for Estonians that regaining independence took place in a 'window of opportunity'.

Woo-Cumings (2005) brings up security concerns, the threat of extinction to a nation, as powerful contributors to nationalist economic policies in the East-Asian context. Historical precedents and current political events have significantly amplified Estonian security concerns. Numerous interviewees highlight the manipulation of ethnic Russians by the Kremlin further enhancing Estonians' sense of insecurity, which was aggravated by the 'War of Monuments' during 2004-2007 that peaked in the April 2007 riots following the relocation of the Bronze Soldier from Tallinn city centre to a cemetery. The subsequent cyber-attacks on Estonian government websites and the blockade of the Estonian embassy in Moscow (Smith, 2008) where demonstrators waved placards with the slogan "Wanted the ambaSSador of eSStonia" (Judah, 2014: 110) further intensified Estonian anxiety. According to a survey carried out by Levada Centre, a Moscow-based non-governmental research organisation, Russians regarded Estonia as the country 'most unfriendly and hostile to Russia' in 2007. In the second half of 2014, Estonia still ranked among the top 5 countries on the same list. Russia's annexation of the Crimea in 2014 significantly aggravated Estonian security concerns (Eesti Päevaleht, 2014). In September 2014, Estonia's Defence Minister questioned the credibility of Russia's will to find a political solution to its conflict with Ukraine and called on EU and American leaders to increase the presence of NATO forces in Eastern Europe (Estonian Ministry of Defence).

Estonia's post-socialist economic policies underline Tsygankov's (2005) findings that a strong sense of national identity may increase support for liberal policies. In Estonia it served as a strategy to move away from the Russian sphere. One interviewee perceived the Soviet era as a "*huge distortion*". The will of "*no way to return to the Soviet Union*" and to "*get as fast and as far away as possible*" led to a situation where "*everybody wanted liberal policies*" (interviews). Another respondent ironically summarised an apparently common Estonian perception of relations with Russia: *"The relations with Russia cannot be improved unless we rejoin mother Russia."* Such sentiments add more pressure to the country's post-socialist efforts to distance themselves from the Soviet past and Russia by joining international organisations, particularly the EU and NATO, and greatly contribute to their speedy implementation of reforms in order to quickly reorient the country's economy from east to west. As Mart Laar explained, "*we were enormously hurried*".

It is not a coincidence that independent Estonia pursued the policy of 'bandwagoning', which Lamoreaux and Galbreath (2008) call the joining of a small country with a strong nation or alliance in order to protect its sovereignty. Integration with the European Union served their economic and security interests. Fifty years of Soviet domination, which ended the country's brief independence, made Estonians very sensitive to Russian policies. Estonians, Latvians and Lithuanians alike consider Russia a very real threat to their sovereignty (Lamoreaux and Galbreath, 2008) greatly enhancing their sense of insecurity. Similar to other countries in CEE, EU accession has economic as well as political and national security significance.

Western attitudes to Estonian independence

Estonia's aspirations to sovereignty over their own affairs have withstood the indifference, and on occasions outright hostility, of the major geopolitical powers. For over seven hundred years they found their own destiny shaped by external forces, gradually forming a sense of abandonment and self-reliance. History has instilled a need to 'go it alone' in Estonians strengthening their resolve and awareness of abandonment and self-dependency. They learned to become self-reliant reflecting the neoliberal emphasis on the responsible individual. Estonian single-mindedness and suspiciousness were aggravated by the ambivalent attitude of the western powers regarding Estonia's status as an independent nation three times in one century in 1918, 1940 and 1991 (Trapans, 1994). On all these occasions the major geopolitical powers ignored the will of the Estonian people (Piiramäe, 1997).

Although the Allied powers after World War I were in favour of self-determination, they were reluctant to recognise the independence of the Baltic states as they perceived the matter to be part of Russia's internal affairs. They only recognised Estonian and Latvian independence in 1921 (MacMillan, 2001). Estonia found its interests overshadowed by the West's 'Russia first' policy in 1940 when Soviet invasion led to the incorporation of the Baltic States, including Estonia, into the USSR ending its sovereignty. Although "three member states of the League of Nations suddenly vanished from political existence and came under foreign occupation" (Lange, 1994: 233), western concerns to maintain the anti-Nazi alliance with the Soviet Union during World War II and to preserve the status quo during the Cold

War precluded any active support for the Baltic States, including Estonia (Lieven, 1993; Piiramäe, 1997; Smith, 2001).

Their sense of abandonment and of being let down by the international community has fed their sense of the need to 'go it alone', a feeling that was to be resurrected again in the late 1980s when Western leaders' main concern was to support Gorbachev. Estonian officials came to the realisation that the Western powers viewed Baltic aspirations for sovereignty as jeopardising Gorbachev's reforms (Raun, 1991; Lange, 1994, Grachev, 2008). As Beissinger (2002: 444) argues, "until fall 1991, when the disintegration of the Soviet state became a fiat accompli, Western leaders did everything in their power to keep the USSR from falling apart". As late as summer 1991, George Bush Sr. in his "chicken Kiev" speech (p. 444) advised that "freedom is not the same as independence" (Khazanov, 1995: 43). The cool western reaction to the Baltic independence movements was echoed by Tiit Vähi[9]: *"Frankly speaking, not everybody in '89 until '91 supported our independence. Sometimes they were not looking at us very friendly."*

Estonian politicians consider Western reaction to the riots in Tallinn and the subsequent cyber-attacks on Estonian government websites in 2007 as lukewarm. A senior diplomat commented:

> *"The events in April (2007)... showed clearly that we don't necessarily have the international support and understanding to the level we might expect... we were left out in the cold."*

[9] Prime Minister of Estonia 1990-1992 and 1995-1997

The goal: political, economic and cultural sovereignty – the mechanism: neoliberal policy

Post-socialist transformation took place in a neoliberal world. Neoliberalism, in some countries labelled 'shock therapy', was the dominant strategy in the political and economic transformation of CEE (Orenstein, 2001). The end of the Cold War and the collapse of the centrally planned economic system, along with the unsuccessful import-substitution strategies of many developing countries and the relative success of the US economy in the 1990s, have significantly strengthened the hegemony of neoliberal ideas (Kelsey, 1995; Frye, 2010). The failure of the centrally planned economies and the end of the socialist era in CEE have been interpreted by many as the victory of the self-healing free-market economy, proof of the malfunctioning of government intervention in the market (Peet, 2007) that "encouraged acceptance of unrestricted markets as the solution to the economic ills of modern society" (Gilpin, 2001: 8).

"National sentiment became a form of anticommunism" (Verdery, 1996: 82) and "anticommunism has an affinity for liberal reform" (Frye, 2010: 50). Estonia's post-socialist policy choices were mediated by path dependence, their views of Estonian history and culture, by memories of pre-war independence, and by experiences of the Soviet period. Furthermore, neoliberal ideology's call for an active society along with its rejection of dependence on a paternalistic state has played a progressive role in motivating people to proactively improve their own fate. These policies were instrumental in Estonia's national drive to transform its centrally planned economy to a market economy and to reduce Russia's political and economic influence in the country by reorienting its economy from East to West.

History and the country's ambivalent geopolitical situation instilled a collective memory of injustice in Estonians leading to a self-image of individualism and self-reliance. Half a century of Soviet totalitarian domination left them with strong anti-statist attitudes resenting dependence on a 'nanny state'. Estonians proactively discarded the legacy of central planning in favour of a free market economy emphasising values compatible with neoliberal theory, such as individual initiative, self-reliance, accountability, and a minimalistic state.

Unlike in Poland, where the neoliberal "big bang" reform (Sachs, 1993: 48) lasted about one and a half years due to popular opposition caused by a sharp decline in the living standards of the majority of the population (Orenstein, 2001), in Estonia the radical reforms of the successive administrations "enjoyed broad national consent" (Lauristin and Vihalemm, 2009: 9). Estonia's population was willing to make serious sacrifices and waited patiently for the fruits of shock therapy to materialise providing the new administration with plenty of room to manoeuvre. The experiences of the Soviet era fuelled Estonians' desire for freedom. They wanted to move quickly from the Soviet Union to the western world, despite the benefits offered by the paternalistic socialist state, as lack of sovereignty was too high a price. Indeed, the

> "…political ideals of individual liberty and freedom… are indeed compelling and greatly appealing concepts. Such ideals empowered the dissident movements in Eastern Europe and the Soviet Union before the end of the cold war…" (Harvey, 2007: 24).

Notwithstanding Estonia's Scandinavian ties and self-perceived Nordic identity, Estonian leaders did not emulate their economic policies. Andres Tarand offered an explanation as to

why the Scandinavian social-democratic system with its strong welfare state was not followed: "*with Friedman as an apostle it became a bit ridiculous comparing ourselves with the Nordic countries and others*". Estonian policy makers emphasised the need for "*minimum government regulation and control of business activity by the state*". As echoed by many interviewees, Scandinavia seemed "*too socialist*" with "*awful*" tax regimes, an "*unaffordable*" welfare system and "*over-unionised*" industries. Such narratives support Orenstein's (2001) argument that potentially good policy alternatives were ignored in the transition of the CEE, as they lied outside the ideological range of policy makers.

Conclusion

In this article I used Estonia's post-socialist economic policies as evidence to argue that there is no incongruence between economic nationalism and neoliberalism. Economic nationalism needs to be examined in view of the self-image of the nation and the objectives of policy makers. The national imaginary and self-image are crucial determinants of political and economic decisions. Estonia's post-socialist transformation has been a sum of historical, social and cultural factors affected by the common experience of successful as well as unsuccessful efforts of gaining and preserving statehood. Their collective memory of historical injustice has created a sense of abandonment and a 'go-it alone' stance that are compatible with the neoliberal values of individualism, personal responsibility and dependence on oneself. Neoliberal theory with its emphasis on individual liberty has been an attractive proposition to populations living under totalitarian rule, such as the post-socialist states of Central and Eastern Europe. In post-socialist Estonia neoliberal policies form an integral part of economic nationalism.

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